National Taxpayers Union

Statement of John Berthoud, Ph.D.
President of the National Taxpayers Union

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Committee on Rules, Subcommittee on Legislative and Budget Process

on
Budget Process Reform

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I. Introduction: the Congressional Budget Process in Crisis

Chairwoman Pryce, Ranking Member Slaughter, and distinguished Members of the Subcommittee, thank you for holding these important hearings today. My name is John Berthoud. I am President of the National Taxpayers Union (NTU), a nationwide grassroots lobbying organization of taxpayers with 350,000 members. You can learn more about NTU – and our educational affiliate, the National Taxpayers Union Foundation (NTUF) – on our website: www.ntu.org.

I come here today to offer testimony regarding budget process reform. No one can doubt that Congress's budget process is facing a crisis. An array of numbers and recent history tell the story:

- **Spending is exploding.** Between 1994 and 2004, federal spending has increased by over 30 percent in real terms.[1] And this spending explosion has most definitely not been limited to areas such as defense and homeland security. For instance, just between 1999 and 2004, spending at the Department of Commerce will rise by 23 percent, spending at the Department of Agriculture will rise by 24 percent, and spending at the Department of Labor will rise by 82 percent.[2] In a time of war, clearly, the budget process has failed to provide a vehicle to facilitate reprioritization of spending.

- **Deficits are rising rapidly.** As a consequence of the explosion in spending, deficits and debt are on the rise. The Congressional Budget Office (CBO) projects that under the President's Budget, Debt Held by the Public (Net Debt) will rise from 36.1 percent of GDP in 2003 to 40.0 percent of GDP by 2007. Between Fiscal Year 2000 and Fiscal Year 2004, there was a turn in the fiscal balance of the federal government of over three-quarters of a trillion dollars, from a $236.4 billion surplus to a projected $520.7 billion deficit.[3] While the economic impact of deficits of this magnitude is debatable, there is no

108 North Alfred Street ★ Alexandria, Virginia 22314 ★ Phone: (703) 683-5700 ★ Fax: (703) 683-5722 ★ www.ntu.org

doubt that Washington's easy access to credit allows government to grow faster than would otherwise be the case. As Congressman Chris Chocola told this Subcommittee two weeks ago, "Deficits allow members to access and spend public money without raising taxes, thereby avoiding much public debate."[4]

- **Little attention is being paid to the coming entitlement crisis.** Several weeks ago, Federal Reserve Chairman Alan Greenspan testified at length about the coming financial crisis for Social Security and Medicare. He also offered thoughts on some reasonable partial solutions.[5] As a consequence, he was heavily criticized by members of both parties. Many expect the news from today's report of the Medicare Trustees to be bleak. If there is any silver lining to the Trustees' numbers, it is that perhaps they will help focus attention on the need for action.

- **The budget process itself is in a shambles.** Deadlines are rarely made. Rules and limits are regularly overridden for the sake of political expediency. Massive omnibus bills, whose contents are largely unknown to most Members, are often the endgame of the appropriations process. Again, Congressman Chocola summarized the problem well two weeks ago:

  > Congress routinely designates spending as 'emergencies,' waives applicable points of order during budget procedures, raises the statutory debt limit, disregards the sequestration process, excludes anticipated spending from budget estimates, and shifts funding between previous and future years all to avoid budget constraints. When corporations used accounting like this, Congress intervened with Sarbanes-Oxley.[6]

Together, these facts paint a grim portrait of budgeting in Washington. Change is essential.

II. The Shape of Budget Process Reform

In lieu of one specific bill, I'd like to offer our thoughts on some general recommendations for this Subcommittee on what a budget process reform bill should – and should not – include.

1. Reforms Must Have Real Enforcement Mechanisms

Over the past thirty years, Congress has enacted many worthwhile rules to restrain budgetary excess. That's the good news. The bad news is that unfortunately, these measures have often been ignored or overridden. In his testimony before this Subcommittee, Representative Jeb Hensarling observed, "I recently asked the Budget Committee staff how many times the House has waived points of order in the 108th Congress, and I was told that it occurred too often to keep track."[7] If Congress intends to enact meaningful budget process reforms, it must have real and powerful enforcement mechanisms.

One idea would be to require a supermajority vote to waive the rules. We believe that this supermajority requirement should be applied to both the Senate and the House (and the House should not allow a rule requiring only a majority vote to override the requirement for a supermajority vote). H.R. 3800, the Family Budget Protection Act,[8] removes the Rules Committee's jurisdiction to waive permanent supermajority points of order.[9]

I recognize there will be a natural resistance by the Rules Committee to any proposal that it abdicate some of its control. However, before dismissing this idea as a nonstarter, you may want to consider the magnitude of the problems that Congress faces, in terms of deficits, spending, and a broken process. In that context, the Rules Committee may come to realize that strong, coherent budget rules will help the House leadership to turn the tide in the budget war. Absent that, expenditures will remain out of control, and deficits will continue to rise. In turn, spending profligacy will imperil the recently enacted tax cuts, lead to possible adverse results for the economy, and finally also probably bring severe electoral repercussions. Congressman Baron Hill was absolutely correct when he remarked to this Subcommittee: "It's going to be a painful process to get back on the right track, and we're not going to be able to do it without a set of rules that holds our feet to the fire while getting us there."[10]

Another more informal enforcement measure would be for Members of Congress to sign a letter pledging not to vote for any rule that circumvents budget process requirements. This would be similar to an effort that Representative Chris Cox has been organizing regarding Presidential vetoes. Cox has authored – and circulated for signatures – a letter to President Bush pledging to sustain any veto which is based on the legislation spending too much.[11] If only a couple dozen Members of the House were to sign on to a pledge regarding budget rules, it would provide an excellent backstop.

Another important idea – contained in the Family Budget Protection Act – is to broaden the number of programs that would be sequesterable. If only a very limited number of programs are sequesterable, a sequester would occasion cuts so deep in those programs as to render itself politically unviable (and therefore probably overridden).

2. New PAYGO Rules Should Only Apply to Mandatory Spending

It makes sense to reinstate PAYGO to help restrain the growth in mandatory spending. As Budget Director Josh Bolton testified to this Subcommittee two weeks ago, during the Kennedy Administration, mandatory spending represented one-third of the federal budget. Today, this figure has ballooned to 60 percent.[12] Clearly, we must do all that we can to stop the accelerating growth in "uncontrollable spending." Accordingly, we applaud the President's PAYGO proposal that any net increase in mandatory spending would require OMB to enact across-the-board reductions in non-exempt mandatory programs.

What about PAYGO and taxes? If deficits were occurring because Americans weren't paying enough in taxes, then it might make sense to have rules making it harder to cut taxes. That clearly is not the case. Contrary to the hyperbole of tax increase advocates, by historical standards, there is a tremendous amount of revenue in federal coffers. Just from FY 1994 through FY 2004, federal revenues have risen by 18 percent in real terms. If Washington had held annual spending growth to 3.75 percent over the past two decades (a rate which exceeds the rate of inflation in all but one of those years), the federal government would today be in surplus.[13]

And of course, fundamentally, every dollar that Washington spends is not its own money. It is money earned by the people. While federal discretionary and mandatory spending may have spun out of control and thereby necessitated rules to constrain future action, restraining the ability of the federal government to return some tax dollars to their rightful owners is unfair to America's families, who are not the culprits behind Washington's fiscal mess. Particularly in the current context with numerous expiring tax relief provisions, adoption of PAYGO rules for taxes would mean that those who seek to raise taxes on the American public would require less than a majority to do so. I believe that few Americans would approve of making it that easy for Congress to raise their taxes.

Finally, as we saw in 1990 and 1993, Congress and the President have at times raised taxes when they felt it appropriate. Taxes were also increased several times during the 1980s. It is hard to find many parallel instances of Congress paring back universal entitlements. Recent history makes clear that it is far harder politically to cut universal entitlements than it is to raise taxes. Taxes go up and taxes go down, but universal entitlements on the other hand have mostly only had a record of increasing (witness last fall's Medicare prescription drug legislation).

For all these reasons, we believe that Congress should enact new PAYGO provisions to restrain mandatory spending, but not to block tax relief.

3. Congress Should Enact Caps for Mandatory Spending Too

Congress should of course re-establish caps for discretionary spending. Some critics have claimed that such caps would require deep budget cuts. While adherence to the President's budget (which includes discretionary spending caps) would require a gradual scaling back from today's record levels of outlays, Members should note that under the President's budget proposals, by 2009, spending for nondefense discretionary programs – those which critics have said will be "gutted" – will be 22.5 percent higher (adjusting for inflation) than in 1999.[14] Education provides a good case study. Under the President's budget, the Department of Education will spend in 2009 roughly what it does today. That sounds constricting until you recognize that FY 2004 DOE spending is *over 100 percent higher* than in FY 1999.[15]

So, are critics correct that the President's proposal for caps on discretionary spending will lead to "steep cuts?"[16] No. Spending won't grow much from today's bloated budget figures. But if the data is put in the context of the recent surge in domestic discretionary spending, it is clear that the tamping down is not radical and will still leave funding levels far above where they've been, up until the most recent years.

And while it will be more difficult to establish caps on mandatory spending, Congress should enact such limits as well. With mandatory spending spiraling out of control, Congress cannot only rely on limits on *new* mandatory programs, such as PAYGO requirements. Mechanisms are needed to clamp down on the growth rate of *existing* programs. The Family

Budget Protection Act caps mandatory spending growth, protecting this limit with a point of order and establishing across-the-board sequestration for breaches of the cap.

4. The Best Budget Reforms Would Be Constitutional

One of the great difficulties faced by many of the budget process reform measures enacted by Congress is that subsequent Congresses have simply re-written or abandoned the law when it became politically expedient to do so.

While we strongly recommend devices such as supermajority points of order in both Chambers as one safeguard, the National Taxpayers Union has also long led the fight for reforming the budget process via constitutional change. NTU supports a Tax Limitation Amendment to the United States Constitution. NTU was also the first sponsoring organization of the Balanced Budget Amendment (BBA).

Regarding the BBA, we believe that decades of deficit spending have saddled future generations with trillions in liabilities, and helped spawn faster growth of government than would otherwise have been the case. Imagine, for instance, if President Lyndon Johnson hadn't been allowed to simply pay for all of his "Great Society" programs with a credit card (deficit finance). We believe that President Johnson would have been unable to launch many of these programs had he presented taxpayers in the 1960s with the costly bill up-front.

Only a constitutional guarantee will deliver year after year of balanced budgets for the United States. As Judiciary Committee Chairman Sensenbrenner has stated, "The time has come for a little constitutional supervision over the Congress, just like we have to have parental supervision over our children."[17]

5. Create Incentives to Meet Deadlines

Since 1974, it can probably be fairly said that deadlines have been missed more often than they have been achieved. In 21 of the last 23 budget cycles, Congress failed to enact all appropriations by the start of the Fiscal Year (September 1).[18]

Congress needs to have incentives to meet deadlines. We certainly support the provision in the Family Budget Protection Act which establishes an automatic Continuing Resolution in the event that appropriations are not passed by the start of the Fiscal Year. To incentivize Congress to avoid this situation, H.R. 3800 would cut agency spending by one percent each quarter the government operates under the Continuing Resolution.

6. Adopt a Limit on Federal Spending As a Share of GDP

Limiting federal spending to a specific share of GDP would protect taxpayers from government encroaching too far into the economy and their lives. In the Senate, Senator Judd Gregg is crafting a proposal that would limit federal spending to 20 percent of GDP.[19]

As with other budget reform proposals, if Congress adopts this idea, it will be critical to have effective enforcement mechanisms.

7. Create a Process to Eliminate Obsolete Programs

When a business or family expenditure has outlived its usefulness, it is usually rapidly eliminated. Unfortunately, in the federal government, because of a number of dynamics, obsolete programs have a powerful tendency to linger. As Ronald Reagan observed twenty years ago, government practices and programs "become the nearest thing to eternal life we'll ever see on this Earth."[20]

We support creating an independent commission to study government programs and periodically report to Congress on the most wasteful items which can and should be eliminated. This idea is incorporated in the Family Budget Protection Act and we believe Congress should include such a concept in any budget process reform legislation that it adopts.

The idea of government decisions made by independent authorities can be traced to the Progressive era and reflects the thoughts of Chester Bowles who once said that, "government is too big and important to be left to the politicians."[21] Cutting government waste via commissions has proven to be a successful strategy. One of the most fruitful examples has come in the area of military bases. Because of the four rounds of the Base Realignment and Closure Commission process, the federal government is today saving billions of dollars each year.

III. Conclusion

The facts I stated in my Introduction make clear that it is long past time for Congress to act. There is a critical need to enact budget process reform as soon as possible.

But let me caution the Subcommittee on one point. I believe that it is essential that the reforms Congress enacts be meaningful. Weak reforms are worse than no reforms at all. If Congress passes toothless measures, all you will accomplish is to create some sense in the public and media that the problem is "solved." In turn, this will lessen public attention to our budget problems. The end result is that we haven't improved the process, but have lessened the outside pressure for action.

Thank you, Chairwoman Pryce for allowing NTU to testify today and for your work on this important topic. We look forward to working with you and other Members of Congress as this legislative effort moves forward.

Notes

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[1] *Historical Tables, Budget of the United States Government – Fiscal Year 2005*, Table 1.3.
[2] Ibid., Table 4.1.
[3] Ibid., Table 1.1.
[4] Testimony of Representative Chris Chocola to the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004, Page 2.
[5] One idea discussed by Greenspan was raising the age which Social Security and Medicare benefits are provided. In testimony on February 25, 2004 to the House Budget Committee, Greenspan noted that "under current law, and even with the so-called normal retirement age for Social Security slated to move up to 67 over the next two decades, the ratio of the number of years that the typical worker will spend in retirement to the number of years he or she works will rise in the long term. A critical step forward would be to adjust the system so that this ratio stabilizes. A number of specific approaches have been proposed for implementing this indexation, but the principle behind all of them is to insulate the finances of the system, at least to a degree, from further changes in life expectancy. Sound private and public decisionmaking will be aided by determining ahead of the fact how one source of risk, namely demographic developments, will be dealt with." (Testimony of Federal Reserve Board Chairman Alan Greenspan to the House Budget Committee, February 25, 2004, http://www.federalreserve.gov/boarddocs/testimony/2004/20040225/default.htm).
[6] Testimony of Representative Chris Chocola to the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004, Page 2.
[7] Testimony of Representative Jeb Hensarling to the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004, Page 5.
[8] Sponsored by Representatives Jeb Hensarling, Paul Ryan, Chris Chocola, and Christopher Cox.
[9] See Section 503.
[10] Testimony of Representative Baron Hill to the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004, Page 2.
[11] The text of the Cox letter is "Dear Mr. President: To help you control spending during the remainder of the 108th Congress, we will vote to sustain any veto you exercise on the basis that the legislation you veto would result in unnecessary spending."
[12] Testimony of OMB Director Joshua B. Bolten to the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004, Page 3.
[13] Calculations derived from *Historical Tables, Budget of the United States Government – Fiscal Year 2005*, Table 1.1.
[14] *Historical Tables, Budget of the United States Government – Fiscal Year 2005*, Table 8.2.
[15] Ibid., Table 4.1.
[16] See for instance, Robert Greenstein and Richard Kogan, "Administration's Proposed Discretionary Spending Caps Represent Unsound and Inequitable Policy," (Washington, DC: The Center on Budget and Policy Priorities, March 5, 2004, http://www.cbpp.org/3-1-04bud.htm).
[17] The Associated Press, "Balanced Budget Amendment Introduced," February 13, 2003, http://abcnews.go.com/wire/Politics/ap20030213_1522.html.
[18] *Analytical Perspectives, Budget of the United States Government – Fiscal Year 2005*, Page 379.

[19] "Options for Budget Process Reform," The Senate Republican Policy Committee, March 2, 2004, Page 4.

[20] Ronald Reagan, State of the Union Address to Congress, January 25, 1984 (Entire text available at http://www.polsci.ucsb.edu/projects/presproject/idgrant/sou_pages/reagan3su.html).

[21] Source: "The Political Resource Page: Chester Bowles," http://www.politicalresource.net/chester_bowles_quotations.html.